

Calculating the penalty in 26 U.S.C. § 5000A/26 C.F.R. § 5000A-4

Generally. Monthly penalty amount is 1/12 of the *greater* of the flat dollar amount or the excess income amount, up to a maximum of 1/12 of the average annual bronze premium.

Step 1. Calculate flat dollar amount, which is the *lesser* of:

- The sum of the applicable dollar amounts (\$695 per adult/\$347.50 per child in 2017) for all family members without MEC *or*
 - 3 x applicable dollar amount (\$695 in 2017) for the household
- So the lesser of \$695 per adult family member/\$347.50 per kid *or* \$2,085 for the whole household

Step 2. Calculate excess income amount, which is:

$$(\text{total household income} - \text{filing threshold}) \times 0.025$$

Step 3. Determine *greater* of Step 1 number and Step 2 number – this is “Step 3 number.”

Step 4. Compare Step 3 number to average annual bronze premium.

Step 5. Determine *lesser* of Step 3 number and average annual bronze premium – this is “Step 5 number.”

Step 6. Monthly penalty amount is 1/12 of Step 5 number.

Takeaways.

- Step 1 number will be greater for most people up to a certain income threshold, so their penalty will be capped at \$695 (indexed).
- Step 2 number will be greater for most people over that income threshold until they reach another income threshold, so their penalty will be based on 2.5% of their income in excess of the filing threshold.
- Most people over the higher income threshold will appreciate that the penalty is capped at amount of the average bronze premium.